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S E C R E T SECTION 01 OF 05 DAKAR 001454

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STATE FOR AF, EEB/IFD/ODF, INR/AA, AF/EPS AND AF/W
NSC FOR AF SENIOR DIRECTOR PITTMAN
TREASURY FOR PETERS
PARIS ALSO FOR POL - D'ELIA
FROM AMBASSADOR

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SUBJECT: IMF RESREP ON SENEGALESE POLICIES AND GOVERNANCE

REF: DAKAR 1379

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Classified By: Ambassador Janice L. Jacobs for reasons 1.4 (b) and (d).

SUMMARY

11. (S/NF) Senegal is clearly at a political and economic crossroads. Because we are friends, we should do what we can to help Senegal through this difficult time. On June 29, IMF ResRep Alex Segura sought out the Economic Counselor to better understand the MCC decision to end its work on the Diamniadio Platform. Segura also shared a range of frustrations about the current economic policy climate in Senegal, including:
-- Optimism about the economic team in the new cabinet is already fading;
-- The GOS's commitment to poverty reduction continues to deteriorate;
-- Apart from U.S. Mission, the donor community is unwilling to deliver tough messages;
-- The World Bank Country Director is not always helpful;
-- IMF negotiations will be tough; and
-- Recently issued treasury bonds are only a short-term fix. With inflation approaching its highest levels since the 1994 devaluation and government focused on infrastructure rather than the investment climate or poverty reduction, Senegal seems headed for another unspectacular economic performance in 2007. END SUMMARY.

MCA/DIAMNIADIO PLATFORM

12. (C) Segura found the news that the Millennium Challenge Corporation (MCC) was ending its work on the Diamniadio Platform "very disappointing," and he had hoped there was room for negotiation. He now understand that the MCC is not going to go back. While he was glad that the MCC wants to help with the toll road, he views it as a great loss that MCC will not be able to work on a project of grand scope, at least in the near future. EconCouns explained a bit more about how the GOS had not been forthcoming on discussions about the Special Economic Zone, and that, frankly, the MCC

had lost confidence in negotiating with the GOS on the matter. Given that certain parts of the Wade administration clearly wanted to gain control of the Platform, Segura thought the U.S. statement should have been stronger and more direct.

13. (C) Segura thought that the Wade administration must be feeling uncomfortable because so many other countries in the region had managed to sign MCA Compacts. EconCouns agreed with his doubts that the important players in the GOS actually cared about the Platform and its ability to alleviate poverty, and were more interested in just getting into the club of countries that had signed a Compact.

14. (SBU) Segura was concerned that AMPMD Director General Sogue Diarisso would be blamed for the failure. EconCouns explained that the Embassy and the MCC have tried to press the point that Diarisso and his team have been very good partners and are now quite likely the most effective Senegalese organization for managing and providing technical assessments of big infrastructure projects, and that we hope the GOS will continue to take advantage of that talent. EconCouns asked Segura to reinforce this message in his dealings with senior GOS officials.

NEW ECONOMIC TEAM STARTING TO LOOK LIKE THE OLD ONE

15. (C) Segura said he was initially very optimistic about the new line-up of economic ministers. He thought that his interview in Walfadjiri highlighting Senegal's budget deficit may have helped convince President Wade to put knowledgeable technocrats in place. Segura understood that Senior Economy and Finance Minister Abdoulaye Diop was strongly considered for the Prime Minister's job, but the Karim Wade faction convinced the President not to appoint him.

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16. (C) Segura has already seen signs that the new Prime, Budget, and Commerce Ministers view their job as supporting President Wade's wishes rather than providing sound advice or words of caution. It seems that once again only the Finance Minister is willing to raise objections. In one example, Segura said Wade has decided to subsidize the price of bread and rice to address spiraling inflation and both the Budget and Commerce Ministers asked Segura how to do that -- and they did not want to hear about the negative economic consequences. Segura expects to have a much clearer idea of the new team after the July IMF mission comes to Dakar to begin negotiating a new program.

NOT MEETING SOCIAL/PRO-POOR NEEDS

17. (C) Segura explained that his office informally follows MDG trends and the picture is not good. Overall, the social/development budget is shrinking, with money going instead to the growing top-end wage bill, projects like the Corniche, as well as the huge payments to Senelec, the electricity parastatal, and SAR, the oil refinery. He was told by UNICEF that the Ministry of Health is in arrears on payments for vaccines and that vaccination rates will fall in the coming months. He has heard that many school districts are not able to purchase teaching materials. President Wade's proposed subsidies for bread, rice, and gasoline are not really pro-poor, but rather pro-low-middle-high income since those are items that the majority of the population already cannot afford to purchase. One policy to help the poor would be to end the tax protections on cooking oil (for Soneur) and sugar (for local producers), which actually make people pay more than in neighboring countries. Segura agreed that given Senegal's income level, the amount of donor assistance, and its relatively advanced infrastructure, there is no reason the country is failing MCC indicators.

18. (C) New Minister of Commerce A. Habibou Ndiaye told Segura that the new subsidies are necessary because the

political opposition is making such noise about rising prices. Segura had replied that the opposition will also use to its advantage the news of Senegal's dangerous budget deficit; so if the Government cannot address both issues, it would be better to come up with an effective strategy to explain why the Government needs to take difficult steps to get the economy back on track. Segura agreed that would be quite a public relations effort while an increasing number of senior officials and others close to the Presidency are driving new Mercedes. The GOS' current thinking is to keep prices from rising by decreasing taxes on specific commodities, which, according to Segura, will establish a poor precedent. It could also cost Senegal's treasury USD 45-50 million in lost revenue (approximately 0.05 percent of GDP) at a time when the country is facing an expanding budget deficit.

DISAPPOINTMENT WITH THE DONOR COMMUNITY

¶9. (C) Apart from the United States, Segura is disappointed that the donor community often complains to him about government economic/budget policy and implementation but is unwilling to deliver important, but tough messages to the President, either in person or via public statements. He speculated that many donors are intimidated by Wade. He agreed that some G8 missions may be under pressure from capitals to not make waves since the countries have made such huge commitments on aid to Africa. The worst culprits are the UN agencies, which want to talk and organize coordination meetings, but don't want to raise difficult issues on implementation. He is also frustrated that they do not let him use examples of the difficulties they face to help negotiate useful benchmarks for the new IMF program.

¶10. (S/NF) Segura expressed disappointment that the Ambassador and DCM are both leaving. He said he very much appreciates that we have been one of the few missions willing to raise difficult issues with President Wade and others -- doing so publicly on occasion. He added that the Ambassador

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has a very high reputation among donors and is well respected by the ministers he works with. The Senior Minister of Economy and Finance told Segura that shortly after the Ambassador's presentation of credentials, President Wade confided that he was "a bit scared of the new Ambassador.8

THE ROLE OF THE WORLD BANK COUNTRY DIRECTOR

¶11. (S/NF) In strict confidence, Segura (protect) wanted us to know that he has some concerns about the role World Bank Operations Director Madani Tall is playing in Senegal. He views Tall as wanting to be close to President Wade and to be a trusted advisor. However, this may not be always in the best interests of the broader donor community. Segura said that the new Budget Minister, whom Segura views as a close ally of Karim Wade, has confided that Segura's "sister IFI Director" has reported to President Wade "criticisms" that Segura supposedly made about Wade or Karim. This happens in the context of Tall saying something critical of presidential policy or of Karim's role, and then "reporting back" when there is agreement. In general, Segura is a bit concerned that Tall is keeping himself "outside" of intensive but useful donor discussions.

¶12. (S/NF) Segura also said that he is growing more concerned about possible monitoring on behalf of the GOS. He said that somebody told him that the Government can monitor cell phone conversations. EconCouns replied that he was no expert and has no information on such GOS activity, but that monitoring specific phone numbers is probably not too difficult and that he assumes that anything he says over a landline or cell phone can be monitored.

IMF NEGOTIATIONS WILL BE DIFFICULT

¶13. (C) According to Segura, it is "common knowledge" that President Wade does not like the IMF, and most of Wade's advisors do not want a new program. APIX Director Aminata Niane has been particularly critical of the IMF. Only Senior Economy and Finance Minister Diop was able to convince Wade of the importance of a new program as a requirement to get much needed budget support from other donors. However, the upcoming IMF team (scheduled to arrive July 11) will be willing to allow Senegal to not have a program if the negotiations prove too difficult. The Mission lead will not be interested in granting Senegal special considerations such as those already raised, i.e., allowing the National Agency for the Organization of the Islamic Conference (ANOCI) to participate in the negotiations and permit the financing of the new airport to remain off-budget.

¶14. (C) Segura, in a July 9 brief for incoming DCM Jay Smith indicated that Senegal is still interested in pursuing a Policy Support Instrument (PSI), rather than a traditional PRGF, but that he is not convinced that the GOS is prepared tackle necessary "Commonly Agreed Reform Measures" or to respond to the stricter reporting requirements incumbent with a PSI.

SENEGAL'S TREASURY BONDS ISSUANCE

¶15. (SBU) We briefly touched on the subject of the recently issued government bonds (Reftel), and Segura confirmed that it was "sort of" a good measure, being an easy way for the Government to catch-up on current arrears for salaries and payments to suppliers, but that it is not part of a broader strategy to improve public finances. He confirmed that Senegal would do second round, likely for CFAF 75 billion (USD 150 million), in the coming months. In Segura's view, there is not enough demand within the regional market for more than these two issuances, at least not without either expanding the pool of subscribers to include insurance companies and private parties or to significantly increase the rate of return for the bonds.

AMBASSADOR'S COMMENT

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¶16. (C) I will take this opportunity to offer some departing thoughts on U.S.-Senegal relations. Promoting economic growth and development continues to the cornerstone of our bilateral relationship, one solidly based on shared values and interests. President Wade genuinely likes the United States, particularly its diversity, creativity and entrepreneurial spirit. He is especially proud of his friendship with President Bush and was flattered that Senegal was the first stop in the First Lady's recent trip to Africa. He highly values USG efforts to strengthen Senegal's basic education and health care systems. Our views count with President Wade.

¶17. (C) At the same time, President Wade is a proud, pragmatic and impatient man jealous of his power and image. As he famously wrote to the Government of Taiwan in October 2005 when reestablishing relations with the PRC, "countries have interests and not friends." Those interests more and more revolve around what we would describe as dollar diplomacy. Assistance is sought and received from both traditional and non-traditional sources with the latter playing an increasingly dominant role, particularly China, India, and Gulf States such as the United Arab Emirates. Wade told the press three years ago that he was taken with the UAE and other emerging states as models for development. Senegal's selection of Dubai Ports International over France's Bolloré to develop its container port, Jafza International to build a special Free Trade Zone, the Saudi-based Bin-Laden group to build Senegal's new international airport, and Kuwaiti development funds to build Dakar's new Corniche road is not surprising. Wade has grown impatient with the conditionality attached to traditional

western assistance when he can get quicker results elsewhere.

He is convinced that large infrastructure projects are the path to accelerated growth and job creation whereas the western donors push (mostly unsuccessfully) for increased investment through an improved business climate.

¶18. (C) Returning to our priority, economic growth and development, the situation is worsening as outlined in this cable. Government payments prior to presidential and legislative elections, an expanded National Assembly and re-creation of the Senate are all financial drains. A 2 - 3 percent growth rate and 6 - 8 percent fiscal deficit do nothing to win donor confidence or to help Senegal meet its Millennium Development Goals. Unemployment remains high and young men continue to risk their lives in attempts to reach Europe by sea. Adding to Senegal's economic woes, President Wade continues to resist engaging in dialogue with key opposition parties whose leaders are now challenging the President and his policies on a daily basis. There is widespread belief among the opposition and some civil society groups that the President is laying the groundwork to have his son, Karim, take over the Presidency. Some believe that President Wade will step down in two years in order to speed up the process. Many of the new government appointees reportedly have ties to Karim, who is increasingly visible in the press and political discussions.

¶19. (C) Senegal is clearly at a crossroads economically and politically. Because we are friends, we should do what we can to help Senegal through this difficult time. This needs to be done discreetly because President Wade can react badly to bad news or unwanted advice. Getting the country's economic house in order is crucial to maintaining the confidence and support of donor countries. Senegal's stability could be threatened over the long run without significant economic gains that translate into job and wealth creation. Senegal continues to be a model within the region for its peaceful, tolerant, and democratic traditions. President Wade is fiercely proud of this image and we should do what we can to help maintain it. One of the key challenges the U.S. will face not just in Senegal but in other developing nations is the growing availability of unconditional assistance. We may have less leverage in our efforts to improve governance, fight corruption and increase transparency. Our ability to encourage reform will depend

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more on the power of persuasion than the pocketbook should current trends continue. END AMBASSADOR'S COMMENT.

¶20. (U) Visit Embassy Dakar's SIPRNet Web site at <http://www.state.sgov.gov/p/af/dakar>.
JACOBS